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Summary

The worsening balance of payments problem for the U. S. economy has clearly indicated that the American companies must re-evaluate its portfolio of international business arrangements which has been, so far, in favor of private foreign investment. Export marketing is in both national and corporate interests. Furthermore, export marketing has the advantages of minimum entry and exit risks, optimizing on the experience curve, and performing the function of test marketing the product in the international arena.

While export marketing is desirable, it will need top management's worldwide orientation and commitment, insistence on strategic planning and research, as well as proper extension vs. adjustment of the marketing mix.

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EMERGING IMPORTANCE OF EXPORT
MARKETING FOR U. S. PRODUCTS

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INTRODUCTION

Since the economic aftermath of the 1973 oil embargo and the consequent energy crisis, export marketing as a method of international business has become significantly more critical to the U. S. economy than other methods such as licensing, joint ventures and local production through private foreign investment. The primary reason for this shift from local production to exporting American made goods and services is, of course, the worsening balance of payments problem facing the United States since 1975. For example, the U. S. international trade experienced a $40 billion swing from a $9 billion surplus in 1975 to a $31 billion deficit in 1977[1], and the trade deficit is likely to increase over the years for the following reasons:

1. Worldwide inflation and the devaluation of the dollar especially with respect to Germany and Japan has resulted in a far greater economic burden proportional to the increase in imports. For example, while the volume of all U. S. imports only grew 52 percent between 1970 and 1977, the value of all U. S. imports rose by 270 percent during the same time period.

2. The price increases for imported crude oil have significantly outpaced the relative price advantages of U. S. goods and services due to devaluation and possibly greater productivity, especially in the two

sectors of agriculture and capital industrial equipment where the U. S. has worldwide trade advantages over other countries.

3. The comparatively rapid recovery of the U. S. market from the recession following the energy crisis has significantly increased demand for imported nonfood consumer goods at a time when the world demand for U. S. exports remains depressed due to relatively slower economic recovery of major U. S. trading partners and customers.

In fact, the portfolio of U. S. international business arrangements (exporting, licensing, joint ventures, franchised distribution, local production, subsidiaries, etc.) has been traditionally more lopsided in favor of long term private foreign investment which is good so long as the domestic U. S. market can remain self sufficient.[2] However, the domestic U. S. market has become, in recent years, far more dependent on imported goods. To that extent, it very much resembles other import dependent nations such as United Kingdom, Japan and Germany. The resultant balance of payments problem can be solved only by reorganizing the portfolio of U. S. international business arrangements so that it is much more balanced and probably more heavily loaded with export-oriented international business activities.

Since export oriented marketing has been inherent in the thinking of successful European and Japanese companies, it is possible for us to learn some lessons from their experiences.

RELATIVE ADVANTAGES OF EXPORT MARKETING

Export marketing also provides a number of relative advantages for a company over other methods of international business. Therefore, it is uniquely suited as a business strategy which simultaneously satisfies both national objectives and corporate objectives.

1. Anyone can do it. The first and probably the biggest advantage of export marketing is that it is within the reach of every company, big or small. There are virtually no scale factors to start exporting unlike other methods of international business.

   Similarly, the financial and managerial resource commitments and consequent downside risks are minimum in export marketing for both entry and exit decisions.

2. Builds up the experience curve. With additional sales generated by exports, a company can build up its experience curve[3] (lower unit cost at higher volumes) advantages over competition since the same manufacturing facility is now subjected to greater volume of production. It is interesting to note that the experience curve advantage is not available at all or to the same extent in other forms of international business arrangements such as licensing, joint ventures and foreign subsidiaries.

   In fact, it is my contention that the German and the Japanese companies have significantly achieved the experience curve advantage over the U. S. companies mostly because they have remained export-oriented whereas the U. S. companies have heavily leaned in the past toward private foreign investment as a way of doing business internationally.

3. Try it, you may like it. The third major advantage of export marketing is that it enables a company to, at first, try its marketing skills on a limited basis and see how the foreign customers react to its products. Since doing business internationally is inherently more complex and risky, export marketing is a superb early stage strategy. If the product concept has more universal and worldwide appeal, it is then possible to engage into other methods of international business such as local production, foreign subsidiary or joint ventures which, by definition, require greater managerial and financial commitments. Export marketing is, therefore, more like test marketing.

   It would appear that if the U. S. companies had remained, in the past, more export oriented and less private foreign investment oriented, we would have fewer case histories of international business blunders both in volume and value of marketing and managerial mistakes.[3]

4. It creates worldwide national and corporate image. Unlike other methods of international business, export marketing creates a much better and quicker worldwide corporate image and eventually national image. Today, we hear so much about the German and the Japanese cars, cameras and industrial precision instruments because most companies from these two countries have retained their product and corporate identity throughout the world markets. Eventually, and through consistency, the two nations have acquired worldwide image of marketers of best quality trouble free products.

   The positive corporate image developed in world markets also becomes very useful in retaining or creating market leadership in the home markets as experienced by U. S. companies such as Coca-Cola, Caterpillar, Boeing and IBM.

REASONS FOR THINKING OF EXPORT MARKETING

Export marketing is not only good for the country and good for the individual company, it is often a necessity for the survival and ensured future growth of a company. In general, we find that any of the following factors are often the underlying reasons for companies to think internationally in general and to think export marketing in particular.

1. Product/market maturity and increased domestic competition. Often a company which has been the market leader in the domestic market begins to face increasing degree of competition as the product life cycle matures and the markets become enlarged enough for many competitors to think about entering the market. It faces this competition in the form of market segmentation and market fragmentation competitive strategies, and therefore, it is less able to retaliate by product/price advantages. However, the same company can sustain its growth and profitability by going international and thinking of the world as its market. Thus, even though it may lose the domestic market battle, it wins the world market war. This has been clearly the success stories of Coca-Cola, Marlboro cigarettes, and more recently, for IBM and Boeing.

2. Small domestic market. A second reason for companies to think of export marketing is the small size of the domestic market, particularly in highly specialized product/market combinations. While this factor has always been a major reason for most European countries which are small and for most developing nations which have no local markets, it is increasingly recognized as equally important factor for U.S. companies. The primary reason is the fact that most products

tend to have a high degree of skewed consumption which leads to the popular market heuristic of 20/80 ratio: twenty percent of customers generate eighty percent of total business revenue for a product category. This ratio is invariably worse for a brand name.

3. Selective Positioning by Small Suppliers. If a company is not market leader, it often coexists with market leaders by finding a small niche in the market place which the leaders either have no interest or their financial return is not attractive from that specific niche. In other words, small suppliers coexist profitably with big companies by selectively positioning themselves toward a small segment of the market. The future growth for these small suppliers is dependent upon identification of more of the same niche customers living outside the domestic market.

4. World seeks out the company. In many cases, the reason for going international and for export marketing is that the company has in its possession some unique technology/marketing combination in which the world markets are keenly interested. In the decades of forties and the fifties, this was a major factor for the internationalization of American industries especially in the basic industrial markets such as steel, chemicals and pharmaceuticals. Similarly, the unique technology/marketing combinations related to processing industries led to the world seeking out the American technological know-how. While this factor has declined significantly in the decade of the seventies, the U.S. still has unique technology/marketing combinations so far as the electronics technology is concerned, and particularly as it relates to "office of the future" and "home of the future" markets.

5. Accidental exposures to world markets. Surprisingly, there are numerous case histories which depict the story of an American company getting involved in export marketing due to chance events and accidental exposures. As businessmen travel more and more and the world becomes smaller and smaller due to long haul transportation and communication facilities such as wide bodied jumbos and satellite communication systems, it is increasingly likely that this factor will grow in importance in promoting export marketing activities. This seems to be particularly true for export marketing from the developing nations in recent years.

   Prevalence of accidental exposures to world markets once again points to the fact that imperfect competition and market behavior do not only exist but seem to be increasing as the world markets make transitions from agrarian to industrial markets.

6. Government incentives. The last, but by no means the least, reason for companies to think of engaging in export marketing is the economic incentives offered by the government. In addition to tax credits and rebates, many governments also offer incentives in terms of import licenses, especially in developing countries. The margins on imported products tend to be staggeringly high due to limited supply created by the government restrictions. This often leads to companies selling their export items at prices which are at or below cost, resulting in cross subsidies between imports and exports. In many instances, there is no domestic market for exported items and, therefore, the questions of dumping often do not arise. Worse yet, the economic incentives are often strong enough to encourage companies to sell the exported items at or below cost in the domestic markets or to set up double accounting procedures.

The degree to which imports cross subsidize exports, of course, depends on the amount of export incentives and the inelasticity of demand for imported items.

HOW TO SUCCEED IN EXPORT MARKETING

It is one thing for a company to seek export marketing and another thing for it to succeed. Unfortunately, given the complexity and cultural differences, export marketing is more difficult than domestic marketing. There are two sets of criteria which a company must consider carefully in order to ensure success in export marketing.

A. General corporate criteria. These are criteria related to management philosophy, planning and practices. They require the top management and general management to follow a set of rules.

1. Commitment to world markets. The first and possibly the most significant corporate criterion is that the company must possess world market perspective for its products and technology rather than treat the international business as an appendage to its domestic activities. If the company simply thinks of export marketing as a safety valve to let go excess production capacity, it is not likely to succeed on a continuous basis.

   The world market perspective may very well change the company's focus, corporate mission and strategic planning because the size and nature of non-U.S. markets may very well thrust the company in the direction of becoming a transnational corporation. This has already happened to many Fortune 500 companies in the last two to three decades. This shift from a national to a transnational company can only arise if the top management is willing to break the umbilical cord attached to the domestic market.

2. Planning is essential. A second general corporate criterion for success in export marketing is planning of resource management. It is relatively easy for a company to spread itself too thin in too many countries at the same time, and consequently encountering managerial and financial difficulties. The export-oriented company must force itself to develop a priority list and a long term plan with which to enter foreign markets.

   Although the phrase strategic planning often conjures up a detailed careful study of what business a company is and where it ought to be in the long run, it is often possible to rank order individual foreign markets on a single demographic, economic or technological continuum appropriate for its business. For example, a company engaged in marketing plastic pipes for running water and waste disposal in homes and offices can easily rank order countries in terms of the progression from buckets to steel pipes to copper popes to plastics pipes as ways of satisfying water needs. Similarly, companies selling locomotive engines can rank order countries with respect to coal vs. diesel vs. electric energy imbedded in locomotives.

3. Market and competitive research is necessary. It is crucial to undertake market and competitive research in each foreign market. Without such research, it is often too easy to fall prey to the age old stereotypes about market and competitive behavior. For

example, it is very myopic to assume that the larger the total population of a country, the bigger the market for products and services. Unfortunately, in many large countries such as India and China, the buying population is at best a very small fraction of the total population, often not more than five to ten percent. Similarly, it is very myopic to believe that competition is non-existent or of poor quality in many developing countries because of shortages and sellers economy. In reality, competition tends to be far more intense and cut throat in most consumer goods markets.

4. Avoid the self-reference criterion. A number of international business blunders are directly attributed to the self reference criterion. It refers to looking at foreign markets and negotiating international business arrangements from one's own perspective. No matter how successful a company is in its domestic market, it is likely to make tactical mistakes if it does not recognize cultural differences in the way people do business in other countries. Hall[5] has brilliantly summarized five aspects on which cultures differ significantly. He calls them as the silent languages of time, space, friendship, agreements and money.

For example, people living in warmer climates tend to be less time and space conscious than people living in colder climates. In many traditional societies, friendship is far more important than money. Similarly, business agreements are signified by a handshake rather than a legal document. Given this cultural diversity and prevalent silent languages, it is essential that the management be sensitive to them and acquire a more tolerant attitude and give respect to different ways each culture behaves in the market place.[6]

B. Marketing specific criteria. In addition to the general corporate criteria, there are a number of marketing specific criteria which must be met to succeed in export marketing.

1. Segment the market. It is virtually impossible to be everything to everybody in international business. A company must segment the world markets for its products and position itself for a given segment. Without this focus and selectivity, it is very likely that the product will flourish in one market and fail in another market.[7]

2. Extension vs. adjustment of marketing mix. The next step is to carefully examine whether any elements of marketing mix (product, price, promotion and distribution) should be adjusted from market to market or whether the total marketing mix can be extended, at least at a strategic level, across all markets.

   In the following table, two market conditions are identified as relevant for the extension vs. adjustment decision. They are market needs/wants and market constraints. The latter refers to money, time, climate, legal and social constraints imposed on the satisfaction of needs/wants. In many ways, these two market conditions are the classical economic determinants of demand, namely willingness and ability to pay for products and services.

Market Needs/Wants ↓ / Market Constraints →	Same	Different
Same	Complete Extension	Product & Price Adjustment
Different	Promotion & Distribution Adjustment	Complete Adjustment

If both market needs and market constraints are found to be same across markets, it is possible to successfully extend the total marketing mix throughout the world. Both Coca-Cola and Marlboro cigarettes believe this to be the market reality so far as their products are concerned. Most industrial raw materials also tend to follow this pattern.

If the market needs are the same but market constraints are different, it will be necessary to make adjustments with regard to the product including size, design, variety and packaging as well as with respect to their pricing variations. Examples include such tactical changes as voltage of appliances, weatherproof packaging, and recipe alterations for gasoline and detergents to suit different climate and water conditions. More strategic changes relate to size, speed and portability of appliances and other capital goods.

On the other hand, if market constraints are the same but market needs/wants are different, it will be necessary to adjust promotion and distribution elements of marketing mix. For example, a bicycle is a commuting transport in many other countries, but it is an object of summer sport in the U.S. It, therefore, needs to be placed in the sporting goods section of a department store in the U.S. and promoted as a fun exercise object. Similarly, the same product such as Mercedes Benz may be positioned as a commercial taxi in Europe but as a luxury car in the U.S. Both promotion and distribution aspects will need to be significantly changed in this case. Finally, a consumable product such as Perrier natural water may be positioned as a status item in one country and as a substitute for other beverages in another country.

Finally, all the elements of marketing mix need to be adjusted if both the market needs/wants and market constraints are different among different foreign markets.

3. Relative ranking of marketing mix elements. If there is any law of marketing which works in both domestic and international markets as well as in both consumer goods and industrial marketing areas, it has to do with the relative importance of each element of marketing mix.

The first and foremost is product itself. Unless the product has a strong relative advantage with respect to either cost or benefit over competition, it is not likely to succeed as well especially if the company is not the industry pioneer and market leader.

If the product offered is the same between two or more competitors, then next important element is the distribution, service and delivery points. A company with a much better distribution system will always have greater sales volume and market share. It is in this regard that Coca-Cola has an extremely good advantage over other U.S. beverages such as Pepsi or Seven-Up in those markets where both are available. Similarly, Boeing seems to have advantage over Airbus in this regard.

Once product and distribution are equalized among competitors, then the next important element of marketing mix is promotion including advertising, personal selling, trade exhibitions, sales promotions and other similar activities. Often, a company is tempted to spend considerable amount of money in promotion without ensuring that product and distribution are at least comparable if not superior to competition.

Contrary to the common belief, price is the last element in marketing mix to be concerned with. If a company does not possess relative advantages with respect to product, distribution and promotion, it is likely to end up competing on price. At that stage, often the company with experience curve advantage tends to win the price war since it has significantly lower unit manufacturing costs. Price competition and the consequent oligopolistic or monopolistic structure is most prevalent in undifferentiated products or when the industry has shifted from a proprietary to a commodity market situation.

Price is important but it is only conditionally important element of marketing mix in which product, distribution and promotion are the prior conditions. Once again, many exporters from third world countries have made the mistake of offering inferior products with inadequate distribution or service at considerably cheaper prices and have failed in their efforts. The success of Japanese products in the world today compared to the image of cheap imitation prior to World War II is another dramatic example of how price is secondary to product quality and distribution.

SUMMARY AND CONCLUSIONS

Export marketing can simultaneously achieve both national and corporate objectives as a method of doing business internationally. Furthermore, export marketing has been relegated in importance to private foreign investment by the U.S. companies unlike their European and Asian counterparts, and particularly Japanese and German companies. This is surprising in view of the fact that there are a number of relative advantages associated with export marketing as compared to other methods of international business. These include minimum entry and exit risks, achievement of the experience curve advantage and the initial stage of entering foreign markets.

While export marketing may be desirable, it is not likely to be successful unless a company has worldwide orientation toward its business, insists on strategic planning and research and learns the silent languages of doing business in foreign countries. In addition, the company must try to segment and position itself rather than try to be everything to everybody. In addition, it must also identify market characteristics such as market needs and market resource constraints associated with its business and decide what to extend and what to adjust in terms of the marketing mix elements. Finally, the company must realize that there are no trade-offs among the marketing mix elements. Relative advantage over competition in its products is still the most important consideration, followed by superior distribution, service and delivery systems. Neither promotion including advertising or personal selling nor any price cuts will be sufficient to overcome product and distribution deficiencies. Unfortunately, this is often not recognized nor conceded by companies and consequently, experience failures in export marketing.

FOOTNOTES

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3. Patrick Conley, "Experience Curves as a Planning Tool," IEEE Spectrum, Vol. 7, June 1970, pp. 63-68.

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6. Jagdish N. Sheth and S. Prakesh Sethi, "A Theory of Cross-Cultural Buyer Behavior," in Woodside, Sheth and Bennett (eds.), Consumer and Industrial Buying Behavior (Elsivier, 1977), pp. 369-386.

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